



Office of the Auditor General

Audit of City of Ottawa Superannuation Fund (COSF)

**Tabled at Audit Committee
November 26, 2019**

Table of Contents

Executive summary	1
Purpose.....	1
Background and rationale	1
Findings	2
Conclusion	3
Recommendations and responses.....	3
Detailed audit report.....	5
Introduction	5
Background and context	5
Audit objectives and criteria	9
Scope.....	11
Audit approach and methodology.....	11
Audit observations and recommendations	11

Acknowledgements

The team responsible for this audit, comprised of Chantal Amyot and Nathan Sassi from the Office of the Auditor General (OAG), under the supervision of Sonia Brennan, Deputy Auditor General and the direction of Ken Hughes, Auditor General, would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this audit.

Original signed by:

Auditor General

Executive summary

Purpose

The overall objective of the audit was to assess whether key systems, practices and procedures supporting the Plan are providing the City with reasonable assurance that its assets are safeguarded and controlled and that there is adequate oversight of service providers involved in the administration of the plan.

Background and rationale

The City of Ottawa Superannuation Fund (COSF) is a Provincially registered defined benefit pension plan (hereinafter referred to as “the Plan”) that was established on September 8, 1931. The Plan has been closed to new members since 1965. COSF membership is comprised of civic employees of the former City of Ottawa and the former Regional Municipality of Ottawa-Carleton (including Fire Department and Police Department employees) hired before July 1, 1965. As at December 31, 2017, the Plan had 560 members (2016 – 595). In 2017 the Plan paid a combined \$18.1 million in pension and death benefit payments.

The City of Ottawa Council is the Plan Sponsor and is responsible for ensuring the Plan remains fully funded over the long term. The COSF has a Board of Trustees (Board) which is the legal administrator of the Plan. The Board is responsible to ensure the Plan is administered in accordance with the Pension and Benefits Act (Ontario), the Income Tax Act (Canada), and that the Plan’s assets are invested according to the Statement of Investment Policies and Procedures (SIP&P). As the legal administrator of the Plan, the Board is required to make decisions and perform duties to operate and manage the Plan in the best interest of all beneficiaries.

COSF was the victim of two cases of fraud between April 2010 and October 2016 where plan beneficiaries who were deceased continued to receive payments. The benefits administrator became aware of the first case when they received returned mail that was sent to the pensioner. Further investigation uncovered an obituary for the pensioner. This was confirmed by the funeral director, and at that point the payments were stopped. A new process was put in place to follow up on all returned mail or unresponsive pensioners and it was at this point that the second case was uncovered. Both incidents were referred to legal counsel. One case reached a settlement that

includes a repayment schedule and the other case is at the Superior Court where legal counsel is seeking a judgement to recover funds.

As a registered pension plan, COSF must file annual financial statements with the Financial Services Commission of Ontario (FSCO). The Secretary Manager (filled by the City's Deputy City Treasurer, Corporate Finance) is responsible for preparing the annual financial statements which are audited by an independent external auditor. While the internal control environment is relevant to the preparation of COSF's financial statements and assessment of risks, audit procedures designed to express an opinion on the financial statements are not intended to be used for expressing an opinion on the effectiveness of internal control. Given this, and in light of two identified instances of fraud, this audit is important to provide assurance that controls are designed and operating effectively to administer the plan while protecting its assets.

This audit was intended to assess whether key systems, practices and procedures supporting the Plan are providing the City with reasonable assurance that its assets are safeguarded and controlled and that there is adequate oversight of service providers involved in the administration of the plan.

Findings

The audit focused on two key aspects, governance and oversight of all participants in the administration of the Plan, and benefits administration. The findings associated with each area are as follows:

Governance and oversight

- Roles, responsibilities and accountabilities of key stakeholders involved in the administration of the Plan are clearly defined;
- One of the Plan's key policy documents, the Administrative Policy, does not have a formal update schedule;
- The COSF is receiving contract deliverables from all the service providers that were selected for testing; and
- The Board of Trustees is not conducting a governance review as per the Administrative Policy, one of the Plan's key documents that specifies the scope and frequency of the governance review.

Benefits administration

- The process in place to reduce the risk of misdirected or fraudulent payments is operating as intended;
- There is a gap in the City's annual verification process that does not allow for sufficient oversight by the City on the status of held pension payments; and
- The benefits administrator has processes in place to safeguard personal information within the physical files of the Plan members.

Conclusion

Overall, the audit found evidence that the Plan is well managed. We noted that the roles, responsibilities and accountabilities of key stakeholders in the Plan are clearly defined, and that service providers have processes in place to safeguard personal information and to mitigate the risk of misdirected or fraudulent payments.

One of the key responsibilities as defined by the Plan's Administrative Policy is to conduct a governance review at least every three years. While we did note certain aspects of a governance review are being carried out on as needed basis, the extent of the Board's governance review practices do not adhere to the agreed upon review parameters set out in the Administrative Policy. The audit also identified other opportunities to improve the Administrative Policy and to strengthen the Board's oversight of held pension payments.

Recommendations and responses

Recommendation #1

That the COSF Pension Plan Administrative Policy be revised to include a regular update schedule including key roles/individuals who will be responsible for the update process.

Management response:

The COSF Pension Plan Administrative Policy will undergo a comprehensive review. From this, the Policy will be revised to include a regular update schedule including key roles/individuals who will be responsible for the update process. To enable review and approval by the COSF Board of Trustees, this will be approved by the Board by Q1 2020.

Recommendation #2

That the Board of Trustees adhere to the governance review parameters set out in the Administrative Policy.

Management response:

Management agrees with this recommendation.

Further to the response to Recommendation #1, a regular schedule will be established, including key roles/individuals who will be responsible for the review, recommended changes and updates to the Administrative Policy and all other governing documents by Q1 2020.

Recommendation #3

That the City update the Annual Verification process to increase the frequency of reporting by the Benefits Administrator on the status of held pension payments.

Management response:

Management agrees with this recommendation and it has been implemented.

The City's Payroll, Pensions and Benefits Branch has updated the Annual Verification process to include a bi-monthly follow-up with the Benefits Administrator that will continue on an annual basis for the duration required to confirm eligibility each year.

The updated process was put in place effective August 2019.

Detailed audit report

Introduction

The Audit of City of Ottawa Superannuation Fund (COSF) was included in the 2018 Audit Plan of the Office of the Auditor General (OAG), approved by Council on November 22, 2017.

Background and context

The City of Ottawa Superannuation Fund is a provincially registered defined benefit pension plan (hereinafter referred to as “the Plan”) that was established on September 8, 1931. The Plan has been closed to new members since 1965. Since that time, employees participate in the OMERS Pension Plan. COSF membership is comprised of civic employees of the former City of Ottawa and the former Regional Municipality of Ottawa-Carleton (including Fire Department and Police Department employees) hired before July 1, 1965.

Plan membership

As at December 31, 2017, the Plan had 560 members (2016 – 595). The membership is comprised of 279 Plan members (2016 – 300), and 281 surviving spouses/dependents (2016 – 295). There are no contributing members and, as a result, there are no matching contributions from the City of Ottawa. In 2017 the Plan paid a combined \$18.1 million in pension and death benefit payments.

Actuarial valuation

As at December 31, 2017, the Plan assets had a market value of \$180.9 million (2016 - \$186.8 million). There is a going concern surplus of \$8.9 million (2016 - \$2.5 million). The going concern valuation assumes that the Plan will be ongoing and that its assets must be sufficient to meet its liabilities when they come due in the future.

At December 31, 2017, there is a statutory solvency surplus of \$4.4 million (2016 - \$3.6 million solvency deficit). The solvency valuation is a hypothetical valuation required by the Ontario Pension Benefits Act, which assumes that the Plan is about to be wound up so that its assets will have to be used immediately to meet its existing liabilities.

The following table was provided to members at the 2018 Annual General Meeting to summarize the results of the actuarial valuation for the current year and last year.

Table 1: Results of actuarial valuation for 2016 and 2017

All figures in \$,000s	Dec 31, 2017	Dec 31, 2016
ASSETS OF THE PLAN		
Market value	\$180,900	\$186,800
FUNDED POSITION – GOING CONCERN		
Actuarial value of assets for going concern	\$180,900	\$186,800
Actuarial liabilities	\$157,300	\$184,300
Assets less liabilities on the going-concern basis	\$23,600	\$2,500
Provision for Adverse Deviation (PfAD) ¹	\$(14,700)	N/A
Net actuarial surplus / (net unfunded actuarial liability)	\$8,900	\$2,500
FUNDED POSITION – SOLVENCY²		
Solvency assets	\$180,600	\$186,500
Solvency liabilities	\$176,200	\$190,100
Solvency excess / (deficiency)	\$4,400	\$(3,600)
REQUIRED EMPLOYER CONTRIBUTION		
Special annual payments	0	\$827 ³

¹ Required under the new funding rules, and corresponds to 10% of the non-indexed actuarial liabilities.

² Pre-funding of indexation is excluded from the solvency position.

³ The City of Ottawa elected a solvency relief option allowing for a two-year deferral of funding. Contributions resumed January 1, 2019.

Governance Structure

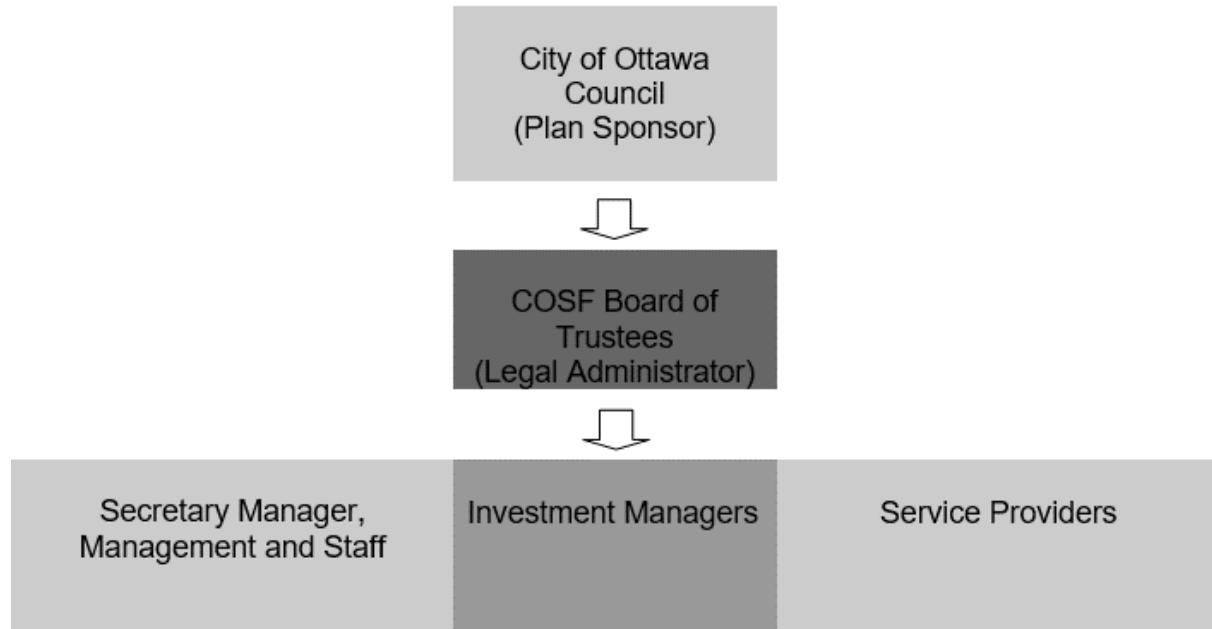


Figure 1: Governance structure of the COSF Pension Plan

The City of Ottawa Council is the Plan sponsor and is responsible for ensuring the Plan remains fully funded over the long term. The COSF has a Board of Trustees (Board) which is the legal administrator of the Plan.

The Board is responsible to ensure the Plan is administered in accordance with the Pension and Benefits Act (Ontario), the Income Tax Act (Canada), and that the Plan's assets are invested according to the Statement of Investment Policies and Procedures (SIP&P). As the legal administrator of the Plan, the Board is required to make decisions and perform duties to operate and manage the Plan in the best interest of all beneficiaries.

The composition of the Board is as follows:

- The Mayor
- Three Councillors appointed by City Council
- The City Treasurer
- One person for the Civic Institute of Professional Personnel appointed by it
- One person for the Ottawa Professional Fire Fighters Association appointed by it

- One person for the Ottawa-Carleton Professional Public Employees Union, Local 503, Canadian Union of Public Employees (C.L.C.) (formerly the Ottawa Municipal Employees Union), appointed by it
- One person for the Ottawa Police Association, appointed by it in consultation with the Ottawa Police Senior Officers' Association
- One representative from the Ottawa-Carleton Pensioners Association
- One representative from the City named by its City Manager. Since the time that the City Manager (formerly the Chief Administrative Officer of the Region) has had the authority to make an appointment, this position has been filled by a Solicitor from Legal Services. The Plan's By-law does not specify that this role must be filled by a lawyer

A Secretary Manager is appointed yearly by the Board and is responsible for administering the Plan, investing the pension funds and paying benefits to Plan members and their beneficiaries in collaboration with the City's Finance Department, Payroll Department, and the use of external service providers. For the period from 2015 to 2018, the Deputy City Treasurer, Corporate Finance, was appointed as the Secretary Manager of COSF. Members of the Board hold office from December 1 to November 30 of the subsequent year and until their successors are appointed.

The Board engages service providers to fill the roles of actuary, external auditor, custodian, benefits administrator, investment consultant and investment managers.

Changes currently underway

Historically, COSF has validated the accuracy of pension benefit recipient (Recipient) information through an annual verification process (Declaration of Survival). Over the years, the extent and timing of the procedures to verify whether a Recipient was alive were modified, with the most recent change being in 2018 in response to two identified cases of fraud. COSF was the victim of two cases of fraud between April 2010 and October 2016 where Recipients who were deceased continued to receive payments.

Prior to the change in 2018, the benefits administrator sent the Declaration of Survival form to Plan members in January along with their direct deposit statement/manual cheque for that month. The Declaration of Survival form is a form the plan members are required to complete annually. This form seeks confirmation of vital information (e.g. confirmation of address, spouse, contact information, etc.) which the Recipient must sign and return to the benefits administrator prior to the specified deadline. The benefits administrator would allow six to eight weeks for a response. If a response was not

received by the deadline, the benefits administrator sent a follow-up letter in April with a response deadline of six to eight weeks. By mid-May, the benefits administrator would attempt to contact Recipients who had not responded by calling the most recent contact number on file. Pension payments were issued to Recipients per the usual payment schedule even if the Recipient did not return the Declaration of Survival form.

In response to the first fraud case, a full review of all non-responsive Recipients was conducted, at which time a second case was discovered. The Board modified the annual verification process in 2018 to mitigate the risk of issuing payments to beneficiaries who were deceased.

As a registered pension plan, COSF must file annual financial statements with the Financial Services Commission of Ontario (FSCO). The Secretary Manager is responsible for preparing the annual financial statements which are audited by an independent external auditor. During the scope of this audit, an external auditor audited COSF's financial statements. It is the Board's responsibility to review the audited financial statements and file them with FSCO within 6 months of COSF's year-end. The role of the external auditor is to provide an opinion on the financial statements and to obtain reasonable assurance on whether the financial statements are free from material misstatement based on their audit. An audit of financial statements involves performing procedures to obtain sufficient and appropriate evidence about the amounts and disclosures in the financial statements. The procedures performed are based on professional judgement and the assessment of risks whether due to fraud or error. While the internal control environment is relevant to the preparation of COSF's financial statements and assessment of risks, audit procedures designed to express an opinion on the financial statements are not intended to be used for expressing an opinion on the effectiveness of internal control. Given this, and in light of two identified instances of fraud, this audit is important to provide assurance that controls are designed and operating effectively to administer the plan while protecting its assets.

Audit objectives and criteria

The overall objective of the audit was to assess whether key systems, practices and procedures supporting the Plan are providing the City with reasonable assurance that its assets are safeguarded and controlled and that there is adequate oversight of service providers involved in the administration of the plan.

More specifically, the audit included an assessment of the following areas:

- Governance and oversight of all participants in the administration of the Plan; and
- Benefits Administration.

Audit objective #1

Assess the extent to which there are adequate practices and procedures in place to provide reasonable assurance that the pension plan governance framework ensures that the Plan's fiduciaries and agents meet their obligations.

Criteria:

- Roles, responsibilities and accountabilities of key stakeholders are well defined
- The management oversight function includes clear definition of roles and responsibilities and clear and measurable criteria to assess and report on the performance of contractors (third-party service providers)
- The Board conducts a governance review periodically, but not less frequently than every three years, that is designed and operating effectively to meet the requirements of the COSF Administrative Policy

Audit objective #2

Assess the extent to which there are adequate practices and procedures in place so that the City has reasonable assurance that the Plan's assets are controlled and safeguarded.

Criteria:

- The City of Ottawa (Plan Sponsor) has reasonable assurance that its third-party benefits administrator is providing the contracted scope of work and deliverables
- The City of Ottawa (Plan Sponsor) has reasonable assurance that the annual verification process approved by the Board is operating effectively to mitigate the risk of misdirected and fraudulent payments
- The City of Ottawa (Plan Sponsor) has adequate processes in place to assess the benefits administrator's performance
- The City of Ottawa (Plan Sponsor) has reasonable assurance that the benefits administrator's internal controls and procedures are effectively safeguarding the personal information of beneficiaries in the physical files

Scope

The scope of our audit included an examination of operational and governance activities of the COSF. The period under examination was from January 1, 2015 to May 31, 2019. Our scope did not include providing an opinion on whether the financial statements were free of material misstatements, as this is the role of the external auditor.

Audit approach and methodology

Our audit was conducted in accordance with the City of Ottawa Audit Standards which included planning activities to obtain an understanding of the audit entity and subject matter through interviews, document review and conducting a risk assessment. The results of our planning activities guided the development of our audit approach which included the following activities:

- Interviews with staff members involved in oversight roles for COSF;
- Interviews with external service providers as deemed necessary to understand key processes related to the administration of the Plan;
- Review of relevant documentation, e.g. organizational charts, by-laws, policies and procedures, service provider contracts, etc.; and
- A variety of audit testing techniques including the testing of a sample of pension files, the review of supporting documentation and other procedures deemed necessary for each of the selected areas of examination selected.

The audit plan was finalized in March 2019, and the audit fieldwork was substantially completed by May 31, 2019.

Audit observations and recommendations

Audit objective #1: Governance and oversight

Roles, responsibilities and accountabilities are clearly defined

An adequate governance framework is essential for ensuring that the operations of the COSF pension plan are conducted in a prudent and efficient manner while ensuring the security and safeguarding of the Plan's assets.

As such, the audit expected to see that there was an adequate governance framework in place relative to the size and complexity of the Plan that established the following:

- Roles, responsibilities and duties were clearly defined for all key stakeholders such as the Plan Sponsor (City of Ottawa), Plan administrator, Plan members, beneficiaries, and third-party service providers with delegated authority to perform Plan duties;
- Processes that specify the tasks that must be performed to ensure compliance with legislative requirements, By-laws, and the Plan's policies and procedures;
- Processes that enable the oversight and monitoring of all participants involved in the administration of the Plan, including performance monitoring of external service providers who provide specialized skills and knowledge related to the operations and administration of the Plan; and
- A governance review to assess and evaluate the existing governance framework to ensure the effective and efficient administration of the Plan.

There are a number of documents that guide the management and operation of the Plan. Key documents include the Plan Text (By-Law 98), the Statement of Investment Policies and Procedures and the COSF Pension Plan Administrative Policy. In addition, the contracts with each of the Plan's service providers identify responsibilities and tasks to be performed.

The objective of the City of Ottawa Superannuation Fund Pension Plan Administrative Policy (the Administrative Policy) is to ensure that all key stakeholders of the Plan meet their obligations, conduct the plans operations in a prudent, equitable, and efficient manner. This Administrative Policy is a main component of the Orientation Package provided to all new members of the COSF Board of Trustees.

This Policy provides an overview of the Plan, identifies the key stakeholders, and provides an explanation of the roles and responsibilities of each stakeholder. Key stakeholders include the City of Ottawa Council (Plan Sponsor), the COSF Board of Trustees, the Secretary Manager, and members and beneficiaries.

The Policy includes a Roles and Responsibilities section that provides a detailed explanation of the key responsibilities of the entities/individuals identified within the governance structure that includes the City of Ottawa Council, COSF Board of Trustees and the Secretary Manager. Furthermore, the COSF relies on a number of service providers to complete most of the responsibilities associated with a pension plan. This includes an actuary, external auditor, custodian, benefits administrator, external legal

counsel, investment consultant, and a group of investment managers. This Policy identifies the companies who have been selected to fill the various positions, the contract expiry dates, and the associated responsibilities.

We observed that the Administrative Policy includes clear and comprehensive definitions of the roles, responsibilities, and accountabilities of key stakeholders.

COSF Administrative Policy does not have a formal update schedule

As mentioned earlier in this report, the Administrative Policy is a key document that is used by the Board to define the roles and responsibilities of key stakeholders. It also provides essential information regarding the underlying documents relevant to the Plan such as the Plan text (By-law) which details the Plan's provisions and details about the service providers.

During the period covered by the scope of our audit, By-law 95 that was passed in 2008 was amended to By-law 98 in October 2015. In addition, the City's Payroll Department assumed certain administrative tasks starting in the fall of 2018. We also noted that there were changes in contract information (e.g. service provider contract expiry dates) during the scope of the audit that were not reflected in the Administrative Policy. Despite these changes, there were no corresponding updates to the Administrative Policy.

Management advised that the Administrative Policy is revised on an as needed basis when something changes to the process. The lack of an update schedule can lead to issues where one of the main policy documents of the pension plan is not accurately reflecting key information including revised processes.

While these changes can appear minor on the surface, this policy document is provided as a part of the introductory package provided to all new Board members. This means all new Board members who began in 2019 are being provided with inaccurate background information.

Policy review is an important governance element, which ensures that the content is current and that the processes reflect the Plan's current practices. This is particularly important for a pension plan that falls under a regulated environment.

Recommendation #1

That the COSF Pension Plan Administrative Policy be revised to include a regular update schedule including key roles/individuals who will be responsible for the update process.

Management response:

Management agrees with this recommendation.

The COSF Pension Plan Administrative Policy will undergo a comprehensive review. From this, the Policy will be revised to include a regular update schedule including key roles/individuals who will be responsible for the update process. To enable review and approval by the COSF Board of Trustees, this will be approved by the Board by Q1 2020.

COSF is receiving contract deliverables from service providers

The Secretary Manager, currently filled by the City's Deputy City Treasurer, administers the pension plan, invests pension funds and pays benefits to members and beneficiaries with the assistance of the Finance Department, the Payroll Department and service providers. Service providers are responsible for most of the day-to-day administration responsibilities under third-party service contracts. We expected to find that the service providers are providing the contracted deliverables.

Since many of service providers' deliverables are related to the COSF's financial statements which are audited on an annual basis, our procedures were limited to reviewing contract deliverables that would not form part of the annual audit of the financial statements.

Based on the procedures performed, we obtained sufficient evidence that the COSF is receiving the contract deliverables outlined in the respective service contracts. Furthermore, all of the contract deliverables tested by the OAG are reported directly to the Board of Trustees, either by the service provider, or to City staff who present the information to the Board. This reporting process ensures the Board has oversight of these contracted deliverables.

The Board of Trustees is not conducting a governance review as per the Administrative Policy

The Administrative Policy identifies the roles and responsibilities of the various entities and individuals responsible for the management and administration of the Plan. One of the responsibilities of the Board of Trustees (the Board) is to conduct a governance review. The Administrative Policy states the following about the governance review:

Governance Review:

The Board will periodically, but not less frequently than three (3) years, conduct an assessment of the governance and performance of the Plan.

The review will include topics such as:

- a) The achievement of terms of reference of each of the parties;*
 - b) The degree of adherence to the governance principles; and*
 - c) The effectiveness of the governance process, and the relationship with beneficiaries, Council and union representatives.*
-

We reviewed available information to assess whether a governance review had taken place that meets the requirements of the Administrative Policy. Since the scope of the audit was from January 1, 2015 to May 31, 2019, we expected to find results of at least one governance review in the last four years that meets the requirements of the Administrative Policy.

We did note that certain aspects of a governance review had taken place. For example, the Board approved updates to underlying Plan documents such as the SIP&P and by-laws. We also observed evidence of legislative changes being shared and discussed at the Board level. This happens as changes in the pension legislation landscape require it, and accordingly these types of updates should not be expected to follow a regular schedule.

However, we noted the following as it relates to the Board's current governance review practices:

- There is no evidence of a governance review on all topics referred to in the Administrative Policy (e.g. achievement of terms of reference of each of the parties and degree of adherence to the governance principles); and
- The Board is not carrying out all aspects of the governance review as per the regular pre-established timeframe indicated in the Administrative Policy (i.e. not less frequently than three years).

We were advised that the conduct of a governance review was a recommendation made by an external consultant when the Plan text was drafted and while specific

aspects of governance are reviewed on an as required basis, the Board has not felt the need to conduct a full governance review to date.

To gain an understanding of governance principles, the OAG reviewed pension plan guidance produced by the Canadian Association of Pension Supervisory Authorities (CAPSA)⁴. More specifically, *Guideline No. 4: Pension Plan Governance Guideline* (Guideline No. 4) and *Pension Plan Administrator Governance Self Assessment Questionnaire* which were released in December 2016. Guideline No. 4 is intended to be broad and flexible to allow pension plans of varying size and complexity to adapt their governance practices.

CAPSA Guideline No. 4, Principle 11: Governance Review indicates, “The plan administrator should regularly review the pension plan’s governance framework and processes and establish a timeframe for the review”⁵. A further discussion on this principle and its more practical implementations are included in the accompanying Frequently Asked Questions for this guideline, which identifies the following components of a governance review:

- Be carried out regularly based on a pre-established timeframe for review;
- Be performed at a high level, but should include a review of the plan’s governing documents (such as plan text, by-laws, trust agreement, and policies, etc.);
- Identify plan governance shortfalls, if any, and changes or modifications to the governance policies and practices to address the shortfalls or otherwise improve overall plan governance; and
- Include discussion of new legislation or other developments impacting on the pension plan⁶.

Regular comprehensive reviews, tailored for the specific circumstances of the Plan, can provide assurance that governance systems are operating as required to fulfill the Board’s fiduciary responsibilities.

⁴ CAPSA is a national association of pension regulators whose mission is to facilitate an efficient and effective pension regulatory system in Canada.

⁵ CAPSA, Guideline No. 4: Pension Plan Governance Guideline.

<https://www.capsa-acor.org/Documents/View/52>

⁶ CAPSA, Guideline No. 4: Pension Plan Governance. Frequently Asked Questions.

<https://www.capsa-acor.org/Documents/View/54>

While there are examples of governance review practices being performed by the Board, the extent of governance review activities do not adhere to the agreed upon review parameters set out in the Administrative Policy. Specifically, the Administrative Policy identifies that governance reviews should take place not less than every three years and include pre-established topics.

Recommendation #2

That the Board of Trustees adhere to the governance review parameters set out in the Administrative Policy.

Management response:

Management agrees with this recommendation.

Further to the response to Recommendation #1, a regular schedule will be established, including key roles/individuals who will be responsible for the review, recommended changes and updates to the Administrative Policy and all other governing documents by Q1 2020.

Audit objective #2: Benefits administration

COSF is receiving contract deliverables from the benefits administrator

In order to carry out its fiduciary duties, the Board of COSF engages a third-party service provider to administer the benefits payable under the Plan. The overall role of the benefits administrator is to administer and pay benefits to plan members and beneficiaries. The current benefits administrator has been under various contracts since 1999. During the scope of the audit (January 1, 2015 to May 31, 2019), the benefits administrator was issued two contracts (one for the period 2012-2018 and one for the period 2019-2023). Each contract describes the scope of work and deliverables.

Examples of services and deliverables include administration of membership (e.g. calculation of benefits, payroll processing, annual declaration of survival administration, calculation of cost of living adjustment), communication with members and Board, and financial reporting. We expected to find that the benefits administrator is providing the contracted deliverables.

As identified earlier, many of the service providers' deliverables are related to the COSF's financial statements, which are audited on an annual basis. Our procedures were limited to reviewing contract deliverables that would not form part of the annual audit of the financial statements.

Based on the procedures performed, we obtained sufficient evidence that the Plan is receiving the contract deliverables outlined in the contract.

There is a process in place to reduce the risk of misdirected or fraudulent payments and is operating as intended

The COSF, like many pension plans, validates the accuracy of Recipient information through an annual verification process⁷ (Declaration of Survival) to confirm personal information (e.g. confirmation of address, spouse, contact information, etc.). This process also helps to validate that a pensioner (or beneficiary) is alive and continues to be eligible for pension payments thus reducing the risk of misdirected or fraudulent payments.

The annual verification process is started by sending a Declaration of Survival form (the "Form") to the Recipient (who may be represented by a Power of Attorney) with a request to verify the particulars on the Form, and sign and return it to the benefits administrator.

Over the years, the extent and timing of the procedures to verify whether a Recipient was still eligible for benefits were modified. The most recent change to the process was completed in 2018 in response to two identified cases of fraud. The most significant change in 2018 was to hold payments if there was no response from the Recipient to the annual verification process to mitigate the risk of issuing payments to Recipients who were deceased. Holding payments was not a measure that was taken before 2018. Prior to the change in 2018, the benefits administrator sent the Form to Recipients in January along with their direct deposit statement/manual cheque for that month. If the Form was not returned, the benefits administrator resent the Form. Pension payments were issued to Recipients per the usual payment schedule even if the Recipient (or Power of Attorney) did not return the Form.

A further revision to the annual verification process was made in 2019 to adjust the timing as to when the Form was sent to the Recipient (or Power of Attorney). Under the former process, the Form was sent in January. Starting in 2019, the new process is as follows:

⁷ The Annual Verification Process is conducted annually by the benefit administrator to ensure that the pension benefit recipient information is accurate and up to date. This process is key to ensuring the payments are received by an eligible individual and acts as a process to reduce the risk of misdirected or fraudulent payments.

- The first request to complete the Declaration of Survival form is mailed to the Recipient (or Power of Attorney) in March with an April response deadline;
- If no response is received, a second follow-up letter is mailed in May with a response deadline of June 30;
- If no response is received by June 30, the benefits administrator holds the pension payments effective July 1 of the same year; and
- Payments are released only after a signed Form is received by the benefits administrator.

We expected to find that the benefits administrator was following the new process and holding pension payments for all Recipients (or Power of Attorney) who had not returned the Form.

We reviewed the responses for the 2018 and 2019 annual verification process to assess whether the process was being followed.

For 2018, 98% of the Forms were returned prior to the June 30, 2018 deadline. Ultimately, 12 Recipients had their pension payments held for not responding. Eleven Recipients contacted the benefits administrator and provided a completed Form and received their pension payments. However, as of April 2019 the benefits administrator is still holding pension payments for one Recipient since August 1, 2018, as they had not yet received the completed Form. For 2019, 98% of the Forms were returned prior to the June 30, 2019 deadline. Ultimately, nine Recipients had their payments held on July 1, 2019 for not responding. Since that time, two Recipients have submitted the Form.

In addition, we examined a sample of 2018 and 2019 Forms and observed that all samples were fully completed and returned to the benefits administrator prior to the June 30 deadline. As such, we did not expect payments to be held for the sample that we tested.

We did note that the timing of certain activities that were administered in 2018 and 2019 varied from the annual verification process that was approved in May 2018. More specifically, in 2018, payments were held on August 1, 2018, not July 1, 2018. And rather than send the Forms in March of 2019 to initiate the 2019 annual verification process, they were mailed in December 2018. With 2018 and 2019 being transition years as the annual verification process was being refined, despite the variances in the timing of the activities, all other deadlines in the process were adhered to and payments were held in 2018 and 2019 for Recipients who had not returned a completed Form.

Based on our discussions with the benefits administrator, measures are taken on an ongoing basis to locate pensioners/beneficiaries who have not responded to the annual verification process. For 2018, we noted that one pensioner who had not responded to the annual verification process eventually was located but since the Form had not been returned, the pension payments continued to be held.

Based on interviews with City Payroll staff, we were advised that City staff was not aware that pension payments were still being held by the benefits administrator. The City was not aware of the follow up procedures that were performed by the benefits administrator to search for the pensioner after pension payments were stopped. This is important information because if a pensioner (or beneficiary) has been located, they are considered eligible to receive their payment.

As such, we would expect reporting by the benefits administrator on the status of held payments. This could serve as a trigger to follow up on the annual verification process to mitigate the risk of not paying Recipients who have been located and are therefore eligible for payment.

While we did note a gap in the annual verification process as it relates to the status of held pension payments, based on the procedures performed, we obtained sufficient evidence that the new process is operating as intended to reduce the risk of misdirected or fraudulent payments.

Recommendation #3

That the City update the Annual Verification process to increase the frequency of reporting by the Benefits Administrator on the status of held pension payments.

Management response:

Management agrees with this recommendation and it has been implemented.

The City's Payroll, Pensions and Benefits Branch has updated the Annual Verification process to include a bi-monthly follow-up with the Benefits Administrator that will continue on an annual basis for the duration required to confirm eligibility each year.

The updated process was put in place effective August 2019.

The benefits administrator is safeguarding Plan member's personal information

Plan members' physical files contain personal information that is required to administer the Plan and the associated benefits. The contract executed between the Plan and the benefits administrator included a mandatory requirement for the contractor to have a Privacy Policy that includes "comprehensive processes and procedures to deal with and address potential privacy breaches" and "a security structure that is designed to protect personal information under its control from theft, loss, accidental release or other unauthorized access, use, or destruction".

We expected to find that the benefits administrator adhered to all of the privacy requirements included in the contract and had adequate processes in place with the handling of physical files.

We reviewed the benefit administrator's response to the City's Request for Proposal (RFP) to determine how they addressed the privacy requirement outlined above. In the response to the RFP, the proponent identified the following procedures:

- All records are kept in a locked facility at the organization's Ottawa head office;
- No records are stored or transferred to sites outside the boundaries of the City of Ottawa;
- Electronic files are stored on Canadian servers;
- No foreign countries are used for data storage; and
- When key terminal events occur (i.e. member death), all records are returned to the City of Ottawa.

Furthermore, the benefits administrator established policies and procedures to ensure that privacy is maintained for all clients and members and that all personal information is kept in their office, or the office of an organization authorized by them. The benefits administrator also provides all new employees with a copy of their PIPEDA⁸ staff letter, which forms the basis of the privacy training course provided to all new employees.

During our fieldwork at the benefits administrator's offices, we observed the benefit administrator's records management practices. We observed that physical access to the office was restricted by key card access, and that the physical records of Plan members

⁸ PIPEDA is the Personal Information Protection and Electronic Documents Act. This is a federal privacy law for all private sector organizations that sets out the ground rules for how businesses must handle personal information in the course of commercial activity.

are further secured in a restricted access file room. Access to these files are limited to those who require access to perform their duties to administer the plan.

Based on the evidence collected, there is reasonable assurance that the benefits administrator has processes in place to safeguard the personal information of the Plan members.